FEDERAL RESERVE BANK OF BOSTON™

The President's Report *to the* Board *of* Directors

March 3, 2020

CURRENT ECONOMIC DEVELOPMENTS - March 3, 2020

Data released since your last Directors' meeting show that growth in the fourth quarter was unchanged from the previous estimate of 2.1 percent. Over 2019 as whole, real GDP increased by 2.3 percent, compared with an increase of 2.9 percent in 2018. Labor markets remain tight, incomes have risen further, and consumer attitudes remain elevated. Housing market data were mostly positive in January and remained near decade long highs. The manufacturing data remained soft, reflecting the effects of a strong dollar, slow global growth, and tariffs. While economic data remain largely positive, the outbreak of the novel-coronavirus presents increased uncertainty and downside risks to the outlook. While it is too early to determine the effects of the virus on the domestic economy, growth overall in 2020 is likely to remain close to potential.

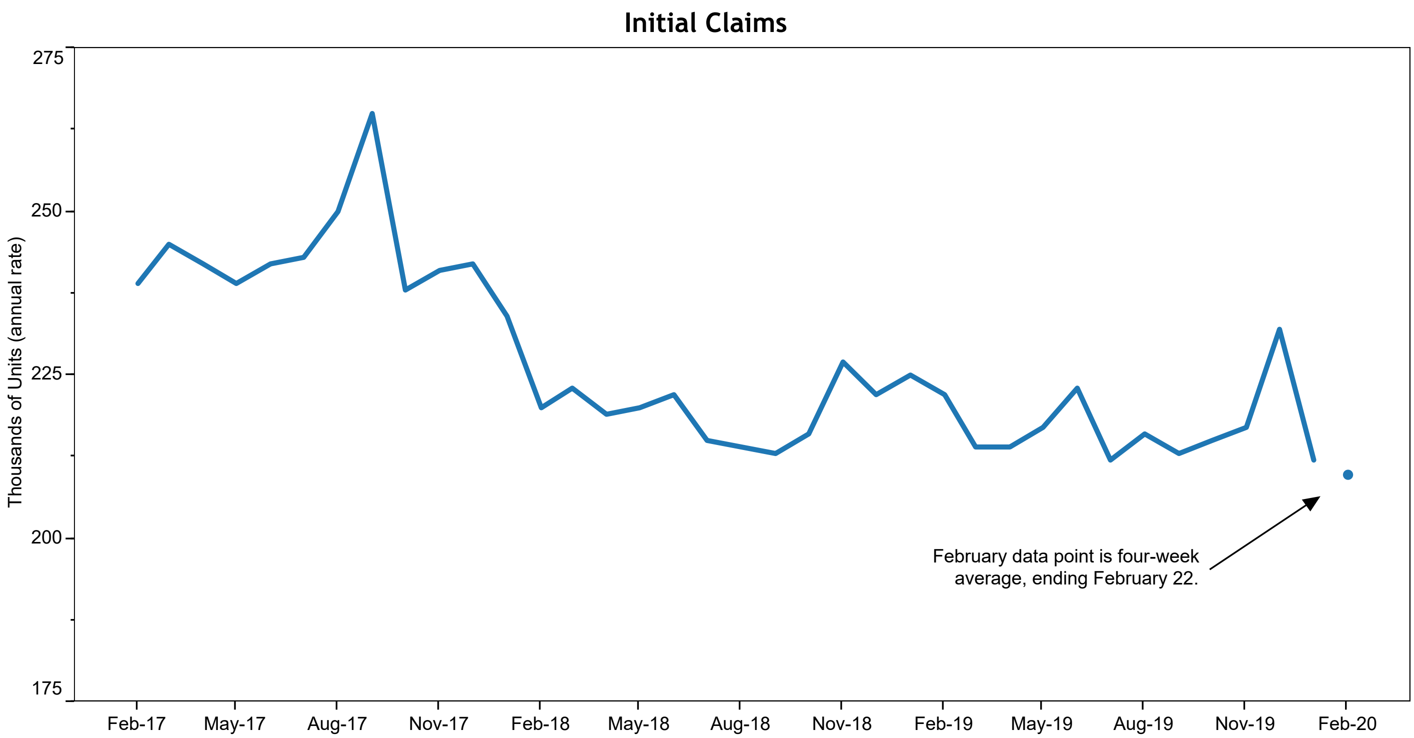
In the four weeks ending February 22nd, initial claims for unemployment insurance dipped slightly, on average, and remain near historic lows. Employment data for February will be released Friday morning, and markets are anticipating a gain in employment of close to 180,000 with the unemployment rate edging down to 3.5 percent.

Consumer attitudes remained elevated in February as both the confidence and sentiment indices rose, though the surveys were conducted largely before the most recent coronavirus news. Consumption posted a small gain in January, supported by a healthy increase in real incomes. Primary measures of real estate activity were mostly positive in January. Sales of existing homes dipped a bit, but new homes sales jumped to their fastest pace in more than 12 years. Building permits rose to a 13-year high while housing starts eased after December's 13-year high was revised further upward.

The ISM index fell in February though remained above 50 after the January reading broke a five-month stretch of signalling contraction. Industrial production fell in January for the fourth time in the past five months, while capacity utilization in manufacturing eased. The breakdown of production in the major market groups was mixed; utilities and manufacturing declined, while mining production rose. In January, new orders for durable goods declined while core orders posted gains on both a monthly and a year-over-year basis.

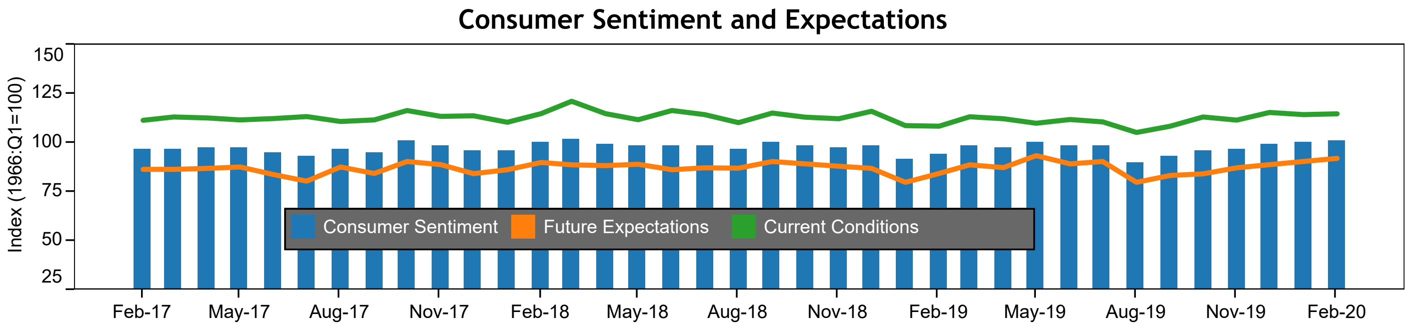
Recent headline inflation data rose in January with both the total CPI and total PCE accelerating two-tenths of a percentage point, while core measures were little changed. Oil prices fell in February to their lowest level since December 2018.

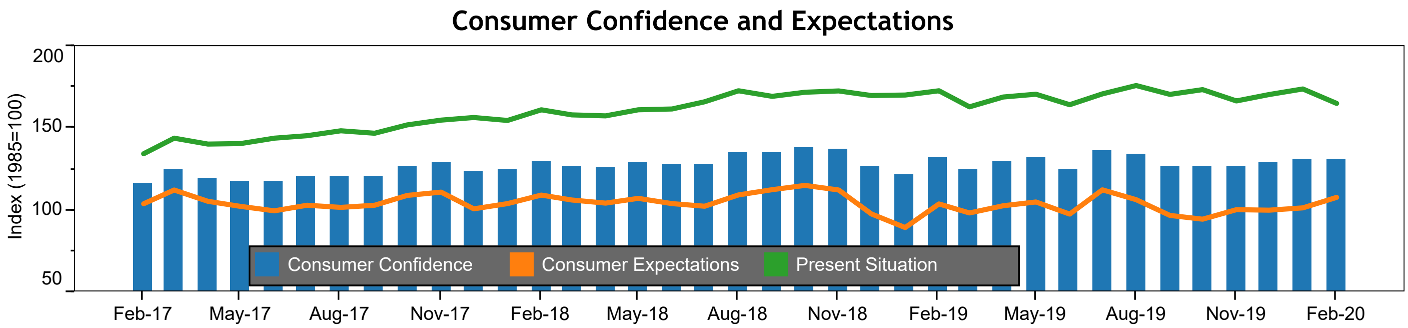
Initial claims for unemployment insurance have fallen slightly, on average, in the four weeks ending February 22nd, and are on pace for their lowest monthly average in 50 years.



Source: Department of Labor, Employment and Training Administration / Haver Analytics.

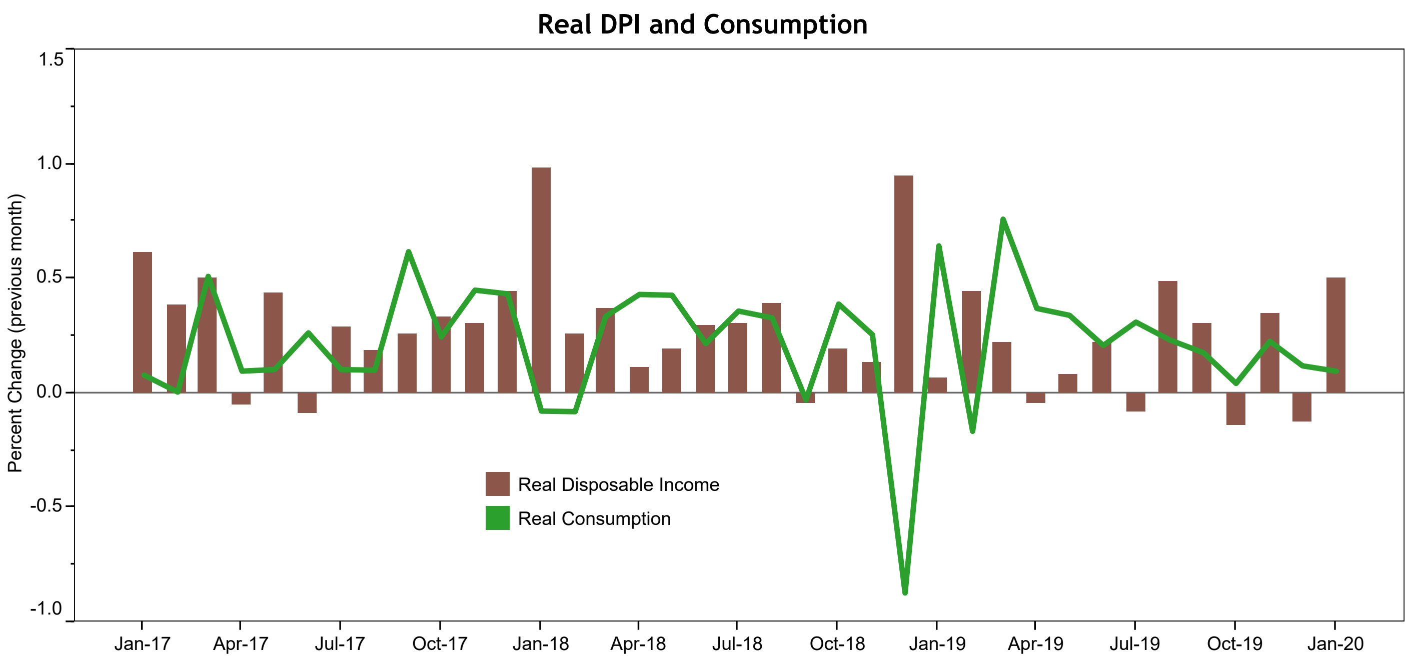
Consumer attitudes were mostly up in February, although, due to the cut-off dates for each survey, the amount of information available to respondents regarding coronavirus was somewhat limited. The consumer sentiment index rose to 101.0 in late February from 99.8 in January, while both component indices edged upward. The consumer confidence index also rose slightly from 130.4 in January to 130.7 in February as gains in the expectations component offset declines in the present situation component.





Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

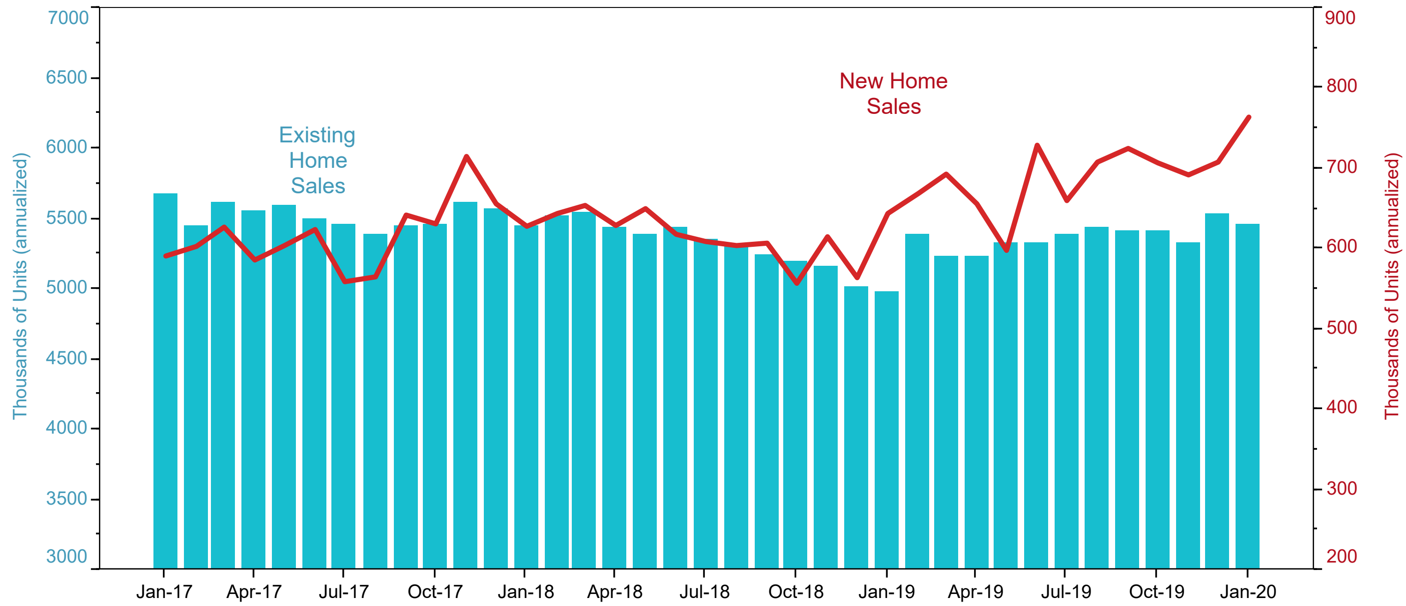
Real incomes rose 0.5 percent in January continuing their recent pattern of alternating gains and losses. Incomes were boosted by annual cost-of-living increases in Social Security benefits as well as tax credits related to the Affordable Care Act. Real consumption edged up 0.1 percent for the second consecutive month.



Source: Bureau of Economic Analysis / Haver Analytics.

New home sales rose 7.9 percent in January to their fastest pace in more than 12 years. Existing home sales dipped a bit in January, but over the past year have risen 9.6 percent.

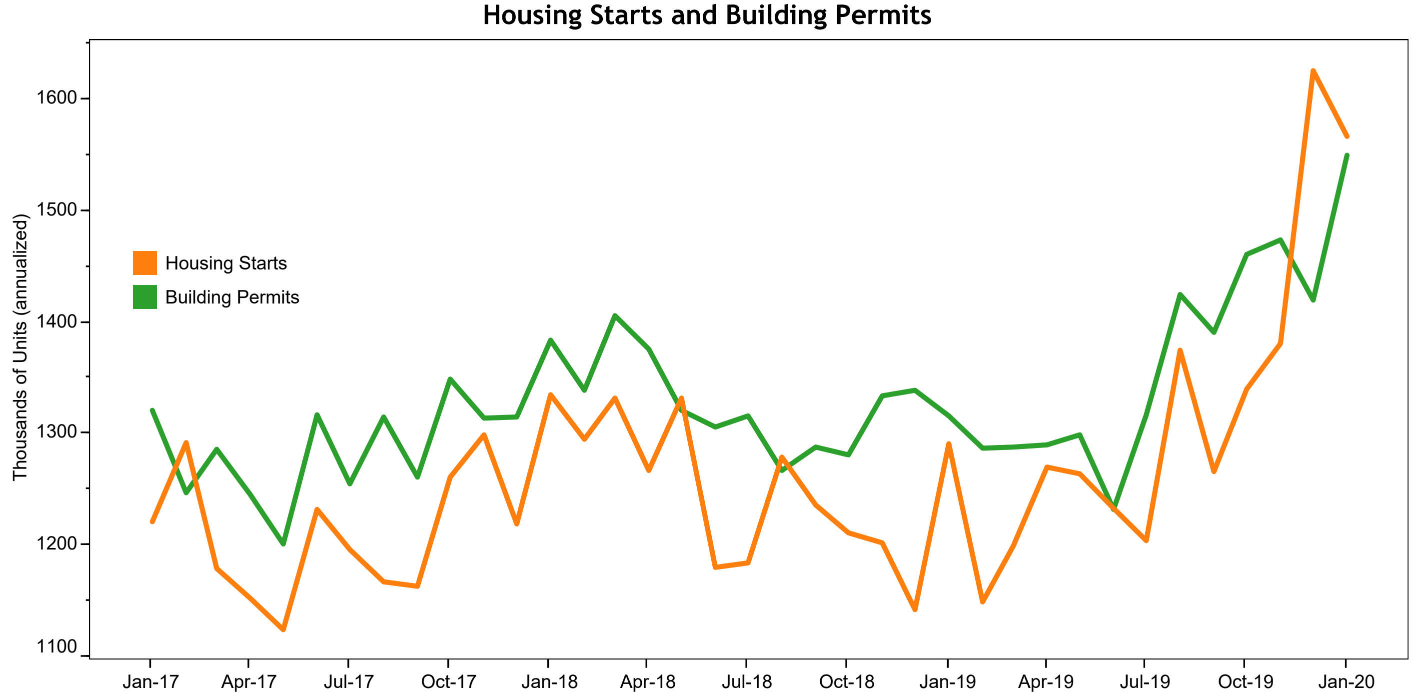
New and Existing Home Sales



Source: National Association of Realtors (existing home sales) and U.S. Census Bureau (new homes sales) / Haver Analytics.

Housing starts fell 3.6 percent in January after rising in the last two months, reaching a 13-year high in December that was revised further upward. Building permits jumped close to their own 13-year high in January, rising 9.2 percent with increases in both single- and multi-family housing permits.

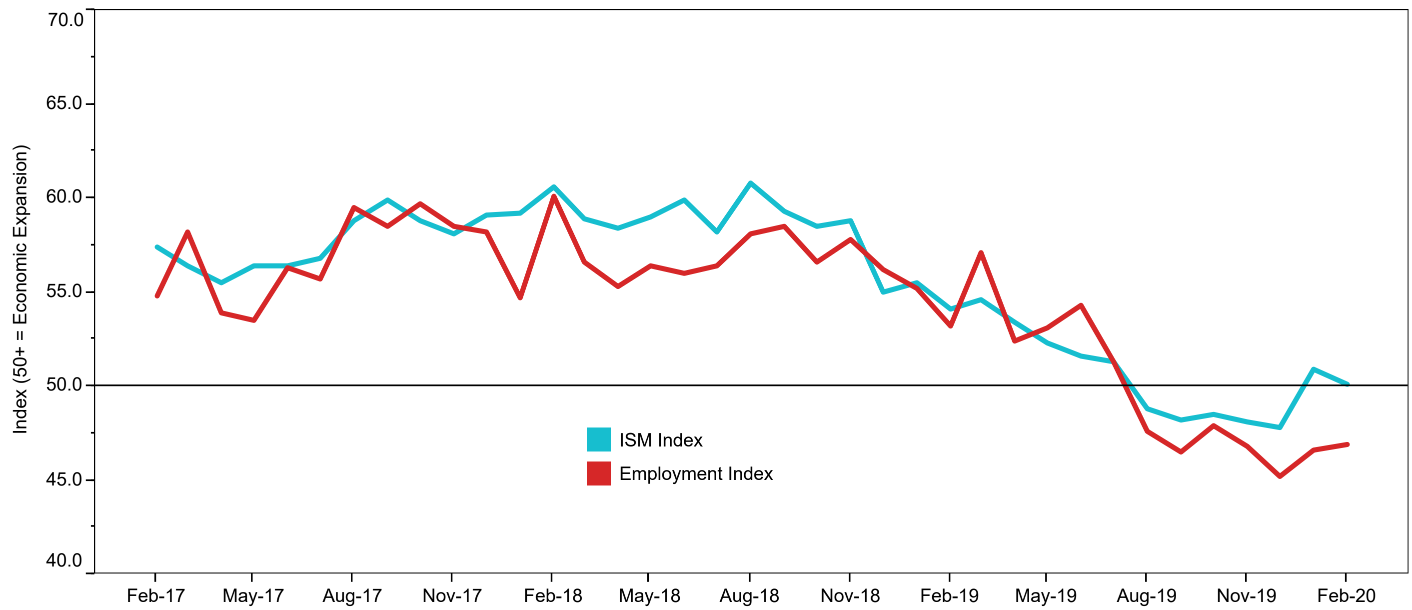
Housing Starts and Building Permits



Source: U.S. Census Bureau / Haver Analytics.

The ISM index dipped to 50.1 in February from January's reading of 50.9. The index has signalled expansion for two consecutive months, after signalling contraction for the previous five. The employment component of the index rose to 46.9 in February from 46.6 in January.

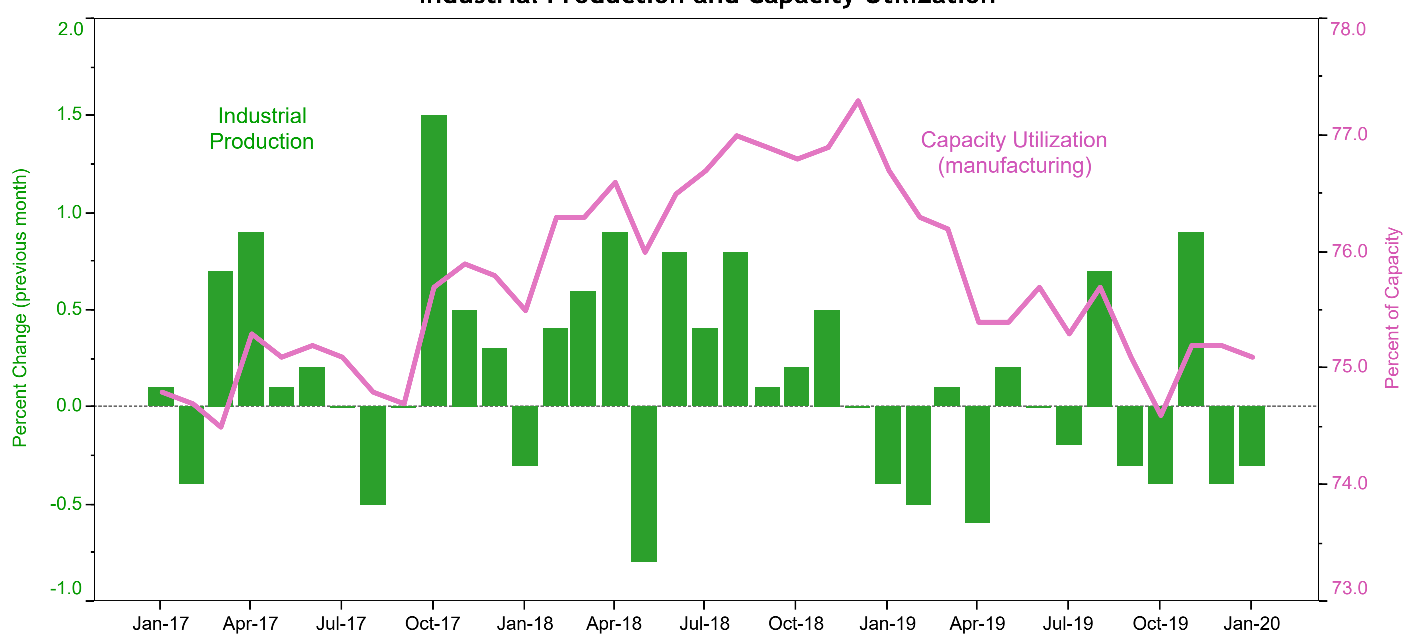
ISM Index



Source: Institute of Supply Management / Haver Analytics.

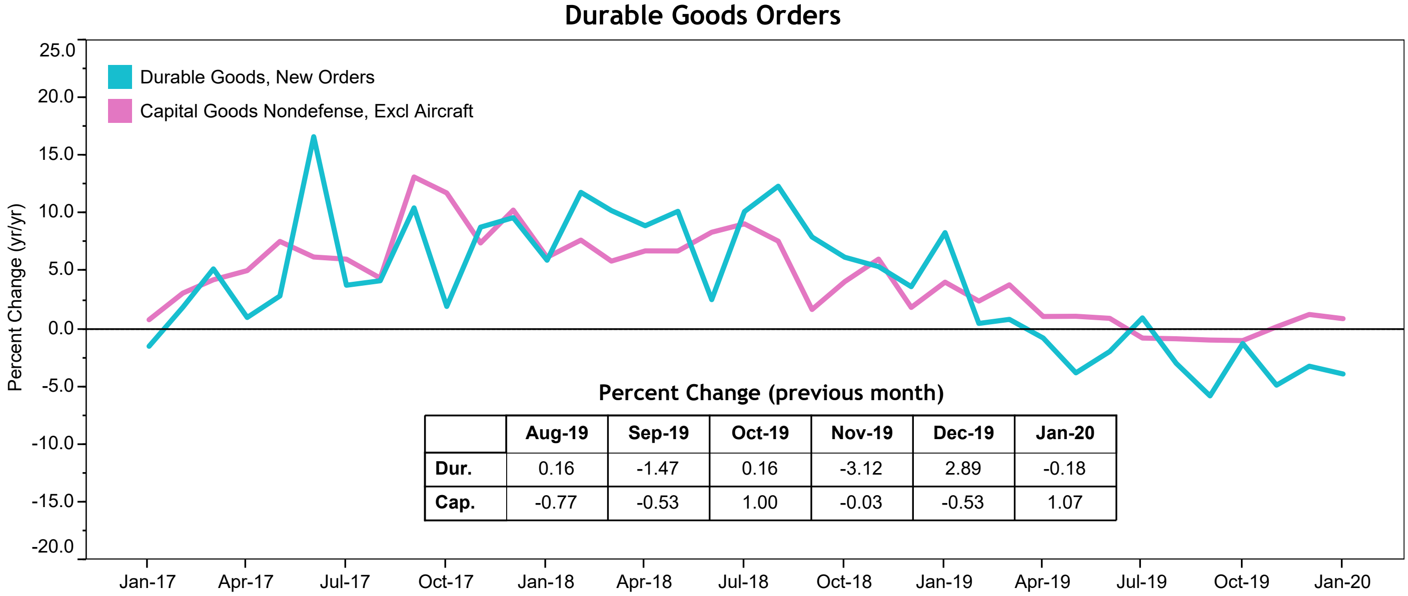
Industrial production fell in January due largely to a decline in utilities production, the result of unseasonably warm weather. Manufacturing production was also restrained by Boeing's suspension of production of the 737 MAX airliner, but those losses were mostly offset by gains in other areas. Capacity utilization in manufacturing edged down to 75.1 in January, but with little change from its fourth quarter average.

Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell in January on a year-over-year basis, as well as from December's increase (which was revised upward). Excluding the volatile defense category, orders were up 3.6 percent. Orders for nondefense capital goods, excluding aircraft, posted small gains in January on a monthly and a year-over-year basis.

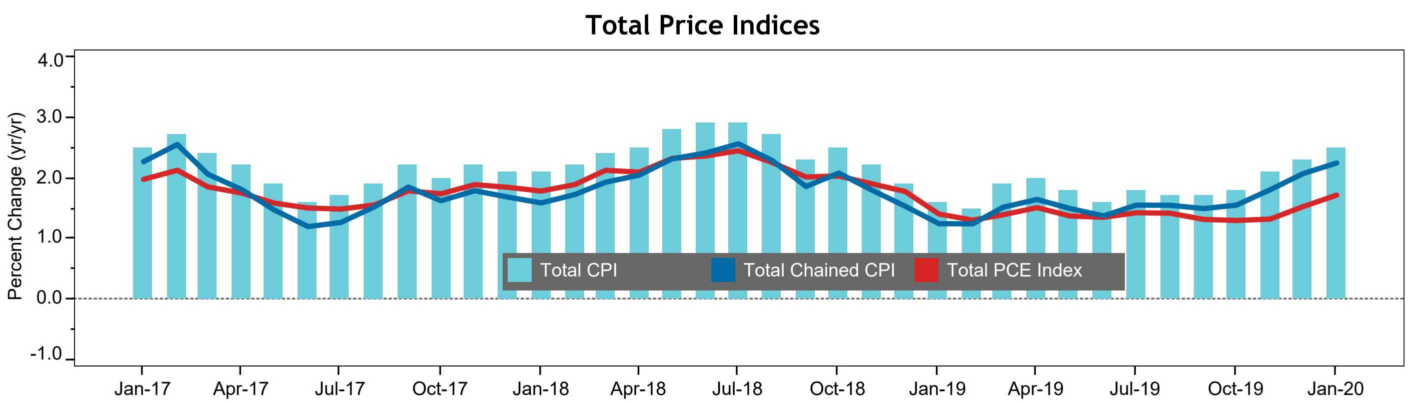


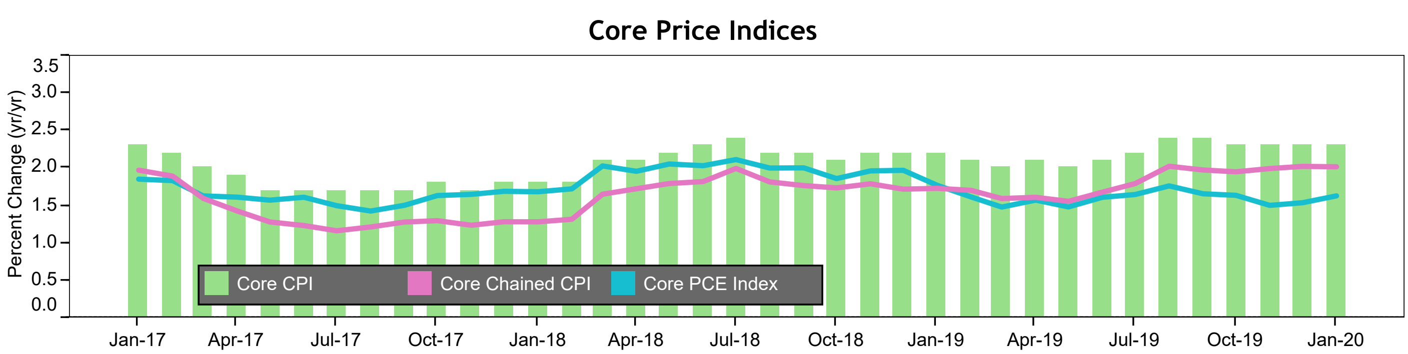
Percent Change (previous month)

	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Dur.	0.16	-1.47	0.16	-3.12	2.89	-0.18
Cap.	-0.77	-0.53	1.00	-0.03	-0.53	1.07

Source: U.S. Census Bureau / Haver Analytics.

Inflation as measured by the total CPI and PCE both ticked up one-tenth of a percentage point in January. On a year-over-year basis, total CPI acclerated to 2.5%, the largest growth since October 2018. From December, the core inflation measures for the CPI and PCE ticked up by two-tenths and one-tenth of a percentage point, respectively, while year-over-year growth was little changed.

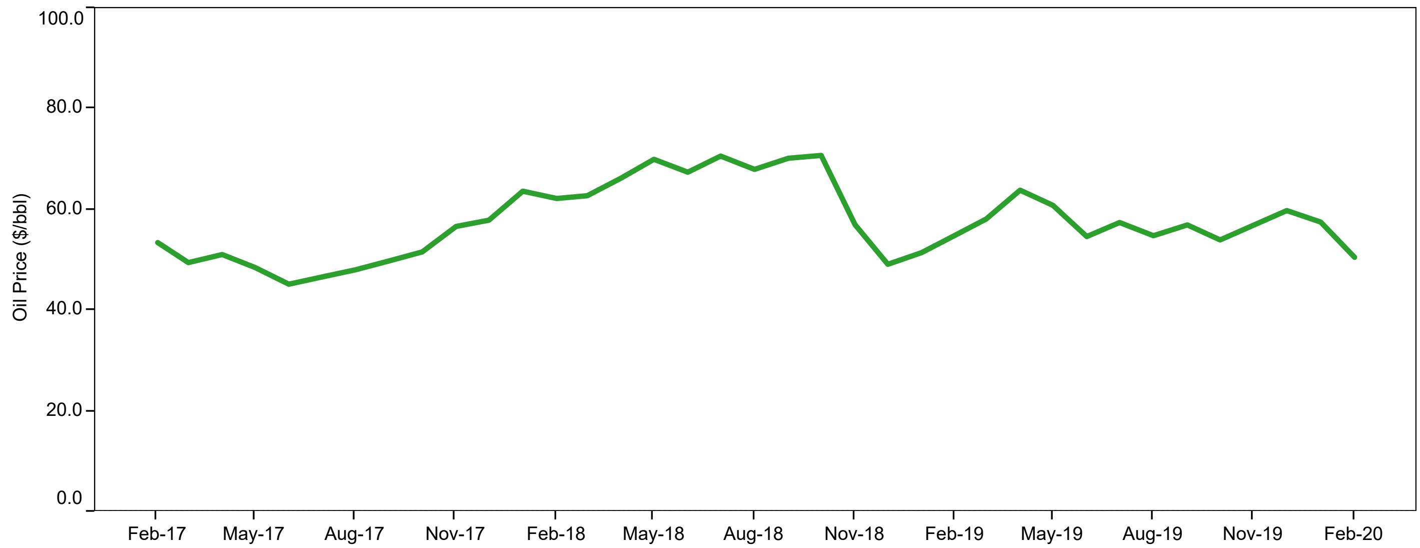




Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices fell in February, on average, to their lowest level since December 2018. Oil closed at $46.75 per barrel on March 2nd.

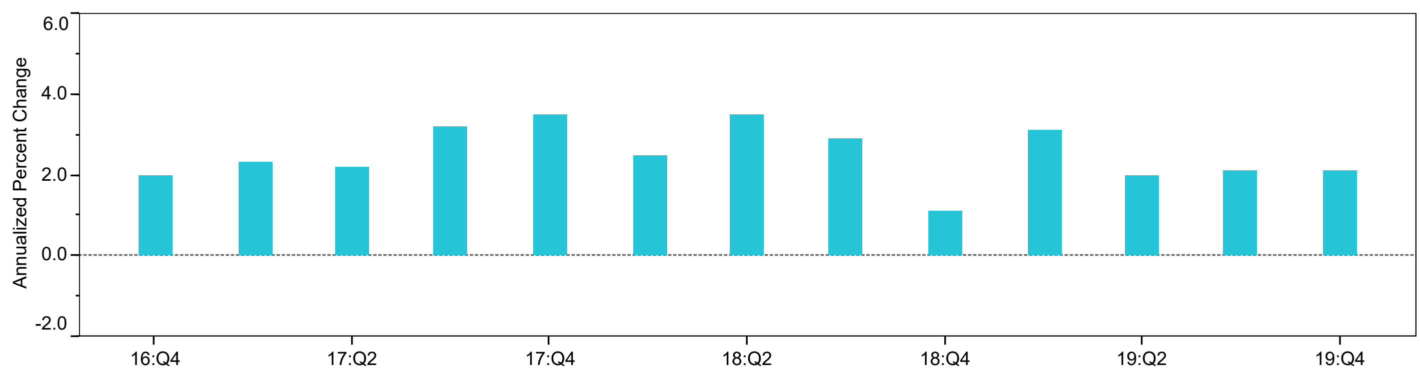
Domestic Spot Oil Price



Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.

The increase in real GDP in the fourth quarter was unrevised at 2.1%. This increase reflected positive contributions from personal consumption expenditures (PCE), federal government spending, exports, residential fixed investment, and state and local government spending that were partly offset by negative contributions from private inventory investment and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased.

Real GDP

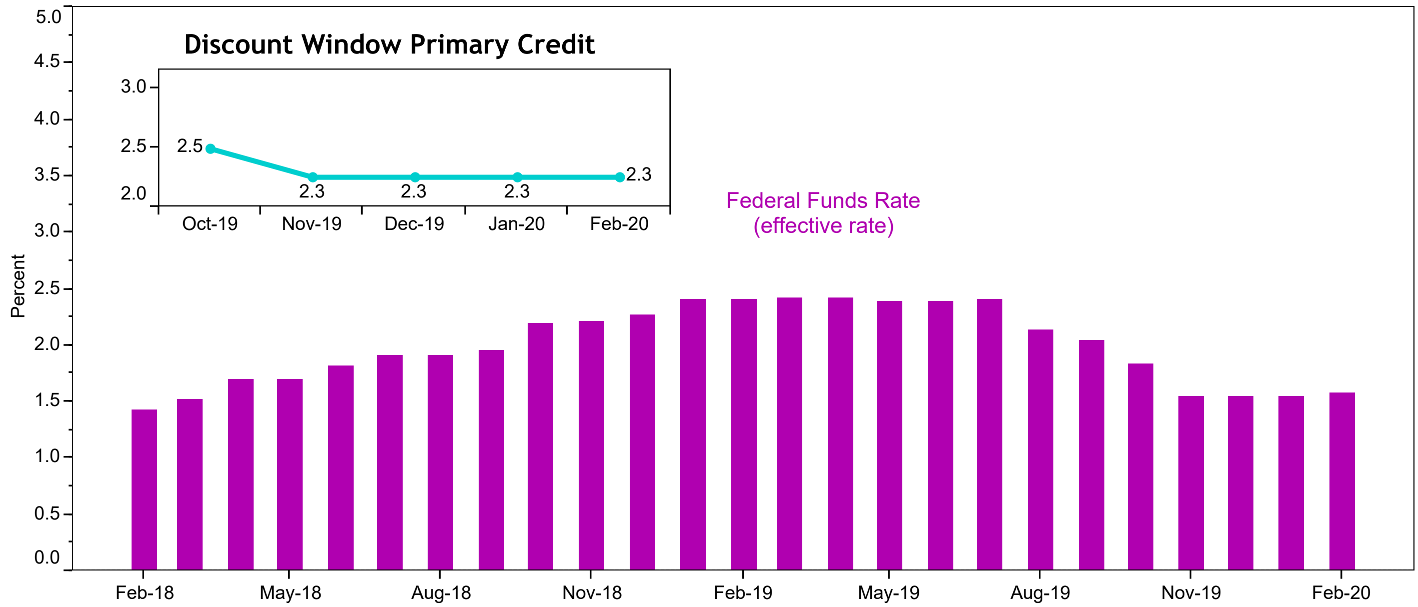


Revisions to Fourth Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	2.1	2.1
Personal Consumption	1.8	1.7
Business Investment	-1.5	-2.3
Equipment and Software	-2.9	-4.4
Residential Investment	5.8	6.2
Government	2.7	2.6
Exports	1.4	2.0
Imports	-8.7	-8.6
Final Sales	3.2	3.1

Data released since your last Directors' meeting show that growth in the fourth quarter was unchanged from the previous estimate of 2.1 percent. Over 2019 as whole, real GDP increased by 2.3 percent, compared with an increase of 2.9 percent in 2018. Labor markets remain tight, incomes have risen further, and consumer attitudes remain elevated. Housing market data were mostly positive in January and remained near decade long highs. The manufacturing data remained soft, reflecting the effects of a strong dollar, slow global growth, and tariffs. While economic data remain largely positive, the outbreak of the novel-coronavirus presents increased uncertainty and downside risks to the outlook. While it is too early to determine the effects of the virus on the domestic economy, growth overall in 2020 is likely to remain close to potential.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by Mike Corbett and David J. Brown.